HUNGARY

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Key Economic Indicators 1/
(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998	
Income, Production and Employment:				
Nominal GDP	44.8	44.7	46.5	2/
Real GDP Growth (pct)	1.3	4.4	5.0	
GDP by Sector: 3/				
Agriculture	3.0	3.1	N/A	
Manufacturing	9.2	9.4	N/A	
Construction	2.0	2.0	N/A	
Services	23.6	23.1	N/A	
Government	6.9	6.6	N/A	
Per Capita GDP (US$)	4,402	4,415	4,590	
Labor Force (000s)	6,215	6,253	6,200	
Unemployment Rate (pct)	10.7	10.4	8.9	
Money and Prices (annual percentage growth):				
Money Supply Growth	21.2	23.2	24.6	4/
Average Consumer Price Inflation	19.8	18.4	13-14	
Official Exchange Rate (HUF/$ annual average)	152.6	186.8	212	
Balance of Payments and Trade:				
Total Exports FOB	13.1	19.1	22	
Exports to U.S. (US$ millions)	653	1,079	1,400	5/
Total Imports CIF	16.2	21.1	27	
Imports from U.S. (US$ millions)	331	485	500	5/
Trade Balance	-2.4	-2.6	-5	
Balance with US (US$ millions)	-322	-543	-900	5/
Current Account Deficit/GDP (pct)	4.0	2.2	4-5	
Net External Public Debt	9.5	4.6	4.5	
Debt Service Payments/GDP (pct)	21.0	13.8	11-12	
Fiscal Deficit/GDP (pct)	3.2	4.6	4.3	6/

Gold and Foreign Exchange Reserves	9.8	8.2	8.2	7/
Aid from U.S. (US$ millions)	17.0	15.0	7.0	
Aid from All Other Sources	N/A	N/A	N/A	

1/ Source: Central Statistical Office and National Bank data available through October 1998, except where otherwise noted.

2/ Apparent decrease is due to the ongoing Hungarian forint devaluation against the U.S. dollar.

3/ GDP by sectors is higher than total GDP due to double counting.

4/ June-on-June M1 growth (no M2 data available for 1998).

5/ Source: U.S. Department of Commerce; 1998 projected from January-August data. Note that U.S.-source and Hungarian-source bilateral trade figures differ markedly, due largely to country-of-origin distinctions in exports whose final assembly occurs in Hungary.

6/ Fiscal deficit increase in 1997 due to changed methodology for interest payments.

7/ October 1998.

1. General Policy Framework

Hungary has been transformed into a middle-income country with a market economy and a well-elaborated but still developing Western-oriented legal and regulatory framework. The first post-communist government (1990-94) began significant economic reform, but was unable to privatize many state enterprises and implement systemic fiscal reforms, which led to large imbalances in Hungary's fiscal and external accounts. A successor government (1994-98) achieved economic stabilization through an IMF-coordinated austerity program adopted in March 1995, and accelerated privatization and economic reform. In 1998, Hungary posted solid increases in industrial output, exports, and overall output, while continuing to reduce inflation. Continued economic restructuring under the current government (elected in May 1998) is expected to allow for sustainable growth in the medium term. Substantial regional disparities exist in Hungary, though they will likely narrow in the future.

A revised privatization program enacted in 1995 gave new momentum to sales of government enterprises and assets, largely to Western companies. Privatization contributed to a rapid transformation of the energy, telecommunication, and banking sectors. Currently about 80 percent of the country's GDP is derived from the private sector, and Hungary has lowered government expenditures as a percentage of GDP. Other significant reforms include means-testing of social-welfare payments (partially reversed by the current government) and partial privatization of the pension system (implemented in January 1998). The unfinished reform agenda includes rationalizing health care and local government financing.

Privatization revenues have reduced Hungary's foreign debt burden substantially. The government has an unblemished debt payments record and its foreign-currency obligations have been rated investment grade by all major rating agencies since late 1996. Foreign currency reserves stood at $8.2 billion through October 1998, enough for four months of imports.

In part reflecting concerns about the Russian financial crisis, the government has pledged to continue reducing fiscal deficits and disinflationary wage increases. The consolidated budget deficit in 1998 will equal about 4.5 percent of GDP, down from 8.2 percent in 1994. Hungary finances its state deficit primarily through foreign and domestic bond issuances. The government projects a $1.5 to 2 billion current account deficit for 1998, up from $1 billion in 1997. Foreign direct investment will exceed the current account deficit, preventing an increase in net external debt. Following a cumulative decline of 17 percent from 1995 to 1996, net real wages increased by 4 percent in 1997 and an estimated 5 percent in 1998, matched by large productivity gains over this period.

Hungary is a leader in attracting foreign direct investment, with an estimated $18.5 billion in cumulative inflows since 1989. Although in the process of being scaled down, tax incentives and related credits are available for foreign investments, especially in underdeveloped regions. Hungarian law currently permits the establishment of companies in customs-free zones which are also exempt from indirect taxation tied to the turnover of goods.

A signatory to the Uruguay Round Agreement and a founding member of the World Trade Organization, Hungary joined the Organization for Economic Cooperation and Development (OECD) in May 1996 and, as a part of that process, is further liberalizing capital account transactions. Hungary has harmonized many laws and regulations with European Union standards and has oriented economic policy towards earliest possible accession.

2. Exchange Rate Policy

The revised Foreign Exchange Law, effective January 1, 1996, made the Hungarian Forint essentially convertible for current account transactions. Foreigners and Hungarians can maintain both hard currency and forint accounts. The forint exchange rate is managed within a +/- 2.25 percent band ("crawling peg") against a currency basket composed of the German Mark (70 percent, to be replaced by the euro as of January 1, 1999) and the dollar (30 percent). In January 1999, the pre-announced monthly rate of devaluation will be reduced from 0.7 to 0.6 percent. Improved macroeconomic performance has helped slow average annual inflation from 28.3 percent in 1995 to a projected 13-14 percent for 1998.

The Hungarian National Bank (MNB) carries out monetary policy through open market operations focusing on an interest rate policy consistent with disinflation and within the constraints of the foreign exchange regime. Commercial banks can conclude foreign exchange swap transactions with the MNB.

3. Structural Policies

Prices for most products and services are freely set by the market. User prices for pharmaceuticals, public transport, and utilities continue to be partially set by the state. The government offers a wholesale floor price for many agricultural products. Public opposition and regulatory intervention have prevented utility prices from reaching market levels, causing energy companies to receive less than the cost-plus-eight percent return stipulated in privatization contracts.

Starting in 1997, successive governments have reduced income tax rates and employer social contributions in an effort to cut inflation, spur job growth, and shrink the gray economy. Corporate tax remains low at 18 percent. Currently, a ten-year corporate tax holiday applies to investments of at least HUF 10 billion (about $46 million as of November 1998) or HUF 3 billion in less developed regions, and a five-year 50 percent tax holiday applies to investments of at least HUF 1 billion. Other incentive programs exist; consult the Country Commercial Guide or the Hungarian Ministry of Economic Affairs. Many municipalities offer local incentives.

Major structural budget reform has been implemented and further legislation is expected in this area. In January 1998, a new “three pillar” pension system was introduced in which private funds initially augment and gradually supplant more of the current state-funded, pay-as-you-go public system. The government is likely to focus on reforming health care and local government financing, in order to further reduce state expenditures.

4. Debt Management

Hungary is a moderately indebted country (though high by per capita standards), with gross foreign debt expected to be $25.5 billion at the end of 1998. In addition, net foreign debt is projected to be $12.5 billion at the end of 1998, down from $14 billion in 1996. Net public domestic debt was $5.0 billion at the end of October 1998, slightly over half the level at the end of 1996. Hungarian governments have consistently met external debt service payments. A standby credit arrangement with the International Monetary Fund ended in February 1998 by mutual agreement. Hungary has prepaid all past borrowings from the IMF, and received an investment grade rating on sovereign long-term foreign currency debt from leading U.S. credit rating agencies in late 1996. Hungary is expected to have reserves of $8 to $8.5 billion by the end of 1998.

5. Significant Barriers to U.S. Exports

On July 1, 1997, Hungary joined the Pan European Free Trade Zone and Cumulation System. Combined with tariff reductions stipulated in Hungary’s 1993 EU Association Agreement, industrial imports from EU members and associated states face declining tariffs (to be eliminated in 2001), while U.S.-origin goods will face Hungary’s MFN tariff rates until Hungary's adoption of the common external tariff upon accession to the EU. The increasing differential between tariffs on EU goods and on U.S. goods has disadvantaged many U.S. exporters. Duty must be paid on imports from outside the Pan-European Zone, which may then be exported duty-free to other countries within the Pan European Zone. Duty paid on inputs processed and then exported within the zone is no longer refunded, a problem which the Hungarian Government has addressed on a case-by-case basis for U.S. firms exporting from Hungary to European markets.

Although 95 percent of imports (in value terms) no longer require prior government approval, quota constraints apply to some 20 product groups, mainly cars, textiles, and precious metals (but quotas did not restrict imports in most of these areas). Under WTO rules, Hungary will phase out quotas on textiles and apparel by 2004. As a result of the WTO Agricultural Agreement, quotas on agricultural products and processed foods have been progressive replaced by tariff-rate quotas. In 1997, Hungary eliminated an import surcharge imposed as part of the March 1995 austerity package.

Importers must file a customs document (VAM 91 form) with a product declaration and code number, obtained from the Central Statistical Office. Upon importation, the importer must present Commercial Quality Control Institute (KERMI) certified documentation to clear customs. This permit may be replaced by other national certification and testing agency documents, such as those of the National Institute for Drugs. Hungary participates in the International Organization for Standardization (ISC) and the International Electro-Technical Commission (IEC).

Foreign investment is allowed in every sector open to private investment. Foreign ownership is restricted to varying degrees in civil aviation, defense, and broadcasting. Only Hungarian citizens may own farmland.

Under the November 1995 Law on Government Procurement, public tenders must be invited for purchases of goods with a value over HUF 10 million ($46,500 as of November 1998), construction projects worth HUF 20 million and designs and services worth over HUF 5 million. Bids containing more than 50 percent Hungarian content receive a 10 percent price preference. This process does not apply to military purchases affecting national security nor to gas, oil, and electricity contracts. Hungary is not a party to the WTO Government Procurement Code, and some U.S. firms have taken legal action against non-transparency and procedural irregularities in government tenders.

6. Export Subsidies Policies

The Export-Import Bank and Export Credit Guarantee Agency, both founded in 1994, provide credit and/or credit insurance for less than ten percent of total exports. There are no direct export subsidies on industrial products, but some agricultural products receive export subsidies from the state. After 1993, agricultural export subsidies exceeded Hungary's Uruguay Round commitments in the range and value of products subsidized; in October 1997, the WTO approved an agreement in which Hungary committed to phase out excess subsidies and not to expand exports of subsidized products to new markets.

7. Protection of U.S. Intellectual Property

In 1993, the United States and Hungary signed a comprehensive Bilateral Intellectual Property Rights Treaty. Hungary also belongs to the World Intellectual Property Organization, the Paris Convention on Industrial Property, the Nice Agreement on Classification and Registration of Trademarks, the Madrid Agreement Concerning Registration and Classification of Trademarks, the Patent Cooperation Treaty, and the Berne and the Universal Copyright Conventions.

Legal implementation of intellectual property rights in Hungary is generally very good, but enforcement is hampered by insufficient resources, court delays, and light penalties. A 1994 amendment to Hungary's industrial property and copyright legislation extended patent protection for pharmaceutical/chemical products and provided the legal means to prevent proprietary information from being disclosed or acquired by other than "honest commercial practices." The 1995 Media Law makes broadcast transmission licenses conditional on respect for international copyrights. In 1997, legislation strengthened access to legal injunctions in infringement cases.

8. Worker Rights

a. The Right of Association: The 1992 Labor Code, as amended in 1997, recognizes the right of unions to organize and bargain collectively and permits trade union pluralism. Workers have the right to associate freely, choose representatives, publish journals, and openly promote members' interests and views. With the exception of military personnel and the police, they also have the right to strike.

b. The Right to Organize and Bargain Collectively: Labor laws permit collective bargaining at the enterprise and industry levels. The Interest Reconciliation Council (ET), a forum of representatives from employers, employees, and the government, sets minimum and recommended wage levels in the public sector. Trade unions and management negotiate private wage levels. Special labor courts enforce labor laws. Affected parties may appeal labor court decisions in civil court. The 1992 legislation prohibits employers from discriminating against unions and their organizers.

c. Prohibition of Forced or Compulsory Labor: The government enforces the legal prohibition of compulsory labor.

d. Minimum Age for Employment of Children: The Labor Code forbids work by minors under the age of 14, and regulates labor conditions for minors age 14 to 16 (e.g., in apprenticeship programs).

e. Acceptable Conditions of Work: The Labor Code specifies conditions of employment, including: termination procedures, severance pay, maternity leave, trade union consultation rights in management decisions, annual and sick leave entitlement, and conflict resolution procedures.

f. Rights in Sectors with U.S. Investment: Conditions in specific goods-producing sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		11
Total Manufacturing		981
Food & Kindred Products	55	
Chemicals & Allied Products	153	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	8	
Electric & Electronic Equipment	(1)	
Transportation Equipment	6	
Other Manufacturing	110	
Wholesale Trade		51
Banking		(1)
Finance/Insurance/Real Estate		15
Services		-17
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,908

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.